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SUBJECT: KAZAKHSTAN: EXXONMOBIL EXECS DISCUSS CPC, KASHAGAN

REF: ALMATY 1085

Classified By: Amb. John Ordway, reasons 1.5(b) and (d).

11. (C) Summary: ExxonMobil executives briefed the Ambassador on the company's Kazakhstani interests on June 8. Country Manager David Willis told the Ambassador that the apparent Putin-Nazarbayev political breakthrough on the issue of Caspian Pipeline Consortium (CPC) expansion in April had not translated to the working level, where the removal of Deputy Energy Minister Oleg Gordeyev as Russia's lead negotiator had left the process without clear direction. On Kashagan, project partners are continuing their push to strip operator AGIP of much of its management control. Finally, ExxonMobil is hoping to follow Chevron's lead by selling its (two) Kazakhstan service stations, thus closing an unprofitable business line originally opened at President Nazarbayev's request. End Summary.

CPC Expansion Process Languishing

12. (U) Willis, accompanied by the President of ExxonMobil's Development Company, Mark Albers, and the company's current and incoming Government Relations Managers, Yelda Guven and Patty Graham, met with the Ambassador on June 8 in Almaty.

13. (C) Regarding CPC expansion negotiations, Willis told Ambassador that, although Putin and Nazarbayev's public announcement in April of a breakthrough in CPC negotiations might lead one to believe that the political impediments to a deal had been removed, no formula for agreement had been communicated to the working level. The GOK, he said, was quite frustrated with Russia. ExxonMobil had seen a copy of an MOU signed by Gordeyev and Kazakhstani Lead Negotiator Kaigeldy Kabyldin in May. Since then, however, the Russians had disavowed the agreement, fired Gordeyev, and reportedly even launched an investigation into his activities. In his absence, Willis said, "there is no one at the tactical level to deal with," and the process was languishing.

Kashagan: Wrestling More Control from AGIP

14. (C) Albers told Ambassador that, following the recent discovery of a significant design flaw in the Kashagan project (reftel), project partners had united in their demand

to replace many AGIP appointees, including the Project Director, with their own secondees. Operator AGIP, Albers explained, had responded to their Fall 2005 request by asking for a twelve-month transition. "Even the presidency of the country doesn't require a year-long transition," Albers said incredulously. The partners would send another letter soon, he said, but might not overcome AGIP's "stalling and filibuster" techniques until the GOK became more assertive on the issue. That might happen in the coming weeks, he concluded, once the GOK learned more about the costs associated with the latest delay.

Hoping to Exit the Retail Fuels Business

15. (C) Willis commented that ExxonMobil was hoping to follow Chevron's August 2005 lead by selling its two remaining in-country service stations to KazMunaiGaz (KMG). More than a decade ago, Willis explained, President Nazarbayev had encouraged TOTAL to establish service stations in Kazakhstan, and other companies had followed suit in order not to prejudice their chances for offshore oil tenders. Now, Willis said, ExxonMobil hoped to exit the low-margin business line, while underscoring to the GOK that the move in no way signified a reduced ExxonMobil interest in other current or future investments. (Note: Chevron successfully sold its service stations to KMG subsidiary Trade House KMG, which in November 2005 announced its ambition to increase the number of country-wide KMG service stations from 55 to 500 by 2010. At the time, the move was justified as a means of reducing alleged "profiteering" at the gas pump associated with the late Summer 2005 spike in oil prices. End note.)
ORDWAY